

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Davison	County Genesee
Fiscal Year End June 30, 2007	Opinion Date October 29, 2007	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

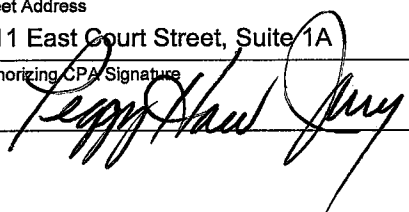
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Plante & Moran, PLLC		Telephone Number (810) 767-5350	
Street Address 111 East Court Street, Suite 1A		City Flint	State MI
City Flint		Zip 48502	
Authorizing CPA Signature 	Printed Name Peggy Haw Jury, CPA, CFE		License Number 1101009025

**City of Davison
Davison, Michigan**

**Financial Report
with Supplemental Information
June 30, 2007**

City of Davison, Michigan

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Introductory Section

City of Davison, Michigan

List of Elected and Appointed Officials

Mayor

Frederick R. Rappuhn

City Council

Ralph Arceo
Ronald D. Emery
Gordon C. Winther
Joy Murray
Keith Flewelling
Donald Csutoras

Appointed Officials

Peter Auger, City Manager
Cynthia VanMegroet, Treasurer
Andrea Schroeder, Clerk
William P. Brandon, Police Chief
Brian Klaassen, DPW Director
Colleen Hackney, Community
Development Director

Davison Downtown Development Authority List of Appointed Officials

Barbarajean Peckins-Muszynski
George Kiess
Eric Riechle
Melanie Helms
Frederick Rappuhn
David Larson
Sean O'Bryan
Sue Fisher

Chair
Vice Chairman
Treasurer
Secretary
Mayor – City of Davison

Davison Local Development Finance Authority List of Appointed Officials

Leroy Cole
Rich Glish
John A. Emmendorfer
Frederick Rappuhn
Rose Bogardus
Doug Ferrell
David Fulcher
Kellie Sproule
Duane Veit

Chairman
Vice Chairman
Treasurer
Mayor – City of Davison

The Brownfield Re-development Authority is made up of the above board members holding the same positions.

Financial Section



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Independent Auditor's Report

To the Honorable Mayor and the City Council
City of Davison, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Davison as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Davison's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Davison as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedule of funding progress, and the budgetary comparison schedules as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Davison's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material aspects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

October 29, 2007

Management's Discussion and Analysis

City of Davison, Michigan

Management's Discussion and Analysis

This section of the City of Davison's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2007. Please read it in conjunction with the City's financial statements, which follow this section.

Financial Highlights

- The City's Total Net Assets are \$11,341,589.
- The City's over-all unrestricted net assets are \$4,397,216.
- General fund expenditures exceeded revenue by \$40,469 before transfers out. After transfers, the net decrease in fund balance was \$50,469 leaving the General Fund with a fund balance of \$1,486,262.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The Fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

Summary Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current assets	\$3,400,657	\$3,417,300	\$3,307,265	\$2,960,179	\$6,707,922	\$6,377,479
Noncurrent assets:						
Long term receivable	79,925	109,660	-	-	79,925	109,660
Restricted assets	-	-	480,587	688,683	480,587	688,683
Capital assets	3,213,737	3,180,071	8,124,114	8,327,387	11,337,851	11,507,458
Total assets	6,694,319	6,707,031	11,911,966	11,976,249	18,606,285	18,683,280
Current liabilities	353,650	426,518	390,184	351,090	743,834	777,608
Long-term liabilities	460,881	450,261	6,059,981	6,389,051	6,520,862	6,839,312
Total liabilities	814,531	876,779	6,450,165	6,740,141	7,264,696	7,616,920

City of Davison, Michigan

Management's Discussion and Analysis (Continued)

Summary Condensed Statement of Net Assets (Continued)

	Governmental Activities		Business-type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Net assets:						
Invested in capital assets- net of related debt	2,797,227	2,668,100	1,735,063	1,619,266	4,532,290	4,287,366
Restricted	891,612	963,642	1,520,472	1,550,019	2,412,083	2,513,661
Unrestricted	2,190,949	2,198,510	2,206,266	2,066,823	4,397,216	4,265,333
Total net assets	<u>\$5,879,788</u>	<u>\$5,830,252</u>	<u>\$5,461,801</u>	<u>\$5,236,108</u>	<u>\$11,341,589</u>	<u>\$11,066,360</u>

The governmental net assets increased 0.8 percent from a year ago – increasing from \$5,830,252 to \$5,879,788. In contrast, last year's net assets increased by 6 percent.

Unrestricted net assets of governmental activities – the part of net assets that can be used to finance day-to-day operations decreased by \$7,560 for the governmental activities. This represents a decrease of approximately 0.3 percent. The current level of unrestricted net assets for our governmental activities stands at \$2,190,950, or about 68 percent of expenditures.

The net assets of business type activities increased 4.3 percent from a year ago – increasing from \$5,236,108 to \$5,461,801. In comparison, last year's net assets also increased by 4.3 percent.

Unrestricted net assets of business type activities– the part of net assets that can be used to finance day-to-day operations increased by \$139,443. This represents an increase of approximately 6.7 percent. The current level of unrestricted net assets stands at \$2,206,266, or approximately 117 percent of expenditures.

Summary Condensed Income Statement

	Governmental Activities		Business-type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenue:						
Program revenue:						
Charges for services	\$ 679,839	\$ 589,642	\$1,825,025	\$1,809,845	\$ 2,504,864	\$2,399,487
Operating grants and contributions	341,102	333,606	41,940	26,409	383,042	360,015
Capital grants and contributions	-	33,470	96,845	-	96,845	33,470
General revenue:						
Property taxes	1,425,485	1,333,650	-	-	1,425,485	1,333,650
State-shared revenue	591,951	609,980	-	-	591,951	609,980
Franchise fees	88,923	66,771	-	-	88,923	66,771
Gain (loss) on disposal of assets	-	-	(7,636)	-	(7,636)	-
Interest	153,472	159,438	156,466	126,674	309,938	286,112
Total revenue	<u>3,280,772</u>	<u>3,126,557</u>	<u>2,112,640</u>	<u>1,962,928</u>	<u>5,393,412</u>	<u>5,089,485</u>

City of Davison, Michigan

Management's Discussion and Analysis (Continued)

Summary Condensed Income Statement (Continued)

	Governmental Activities		Business-type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Program expenses:						
Legislative	28,045	19,968	-	-	28,045	19,968
General government	627,057	603,662	-	-	627,057	603,662
Public safety	1,384,868	1,310,254	-	-	1,384,868	1,310,254
Public works	866,054	564,739	-	-	866,054	564,739
Recreation and culture	322,893	274,497	-	-	322,893	274,497
Interest on long-term debt	2,319	9,438	-	-	2,319	9,438
Water and sewer	-	-	1,886,947	1,745,138	1,886,947	1,745,138
Total program expenses	<u>3,231,236</u>	<u>2,782,558</u>	<u>1,886,947</u>	<u>1,745,138</u>	<u>5,118,183</u>	<u>4,527,696</u>
Change in net assets	49,536	343,999	225,693	217,790	275,229	561,789
Net assets – beginning of year	<u>5,830,252</u>	<u>5,486,253</u>	<u>5,236,108</u>	<u>5,018,318</u>	<u>11,066,360</u>	<u>10,504,571</u>
Net assets – end of year	<u>\$5,879,788</u>	<u>\$5,830,252</u>	<u>\$5,461,801</u>	<u>\$5,236,108</u>	<u>\$11,341,589</u>	<u>\$11,066,360</u>

Governmental Activities

The City's total governmental revenues increased by \$154,215 or 4.9 percent.

Expenses increased by \$448,678 or 16 % during the year.

- Public safety expense increased by approximately \$74,000. The increase is a result of \$117,000 increase in salaries and related fringe benefits, offset by a decrease of \$10,000 in fire runs, a decrease of \$82,000 in building department salaries and related fringe benefits.
- Recreation and culture expenses increased by approximately \$48,000. The increase is a result of an increase of \$17,000 for senior center expenses and an increase in community development salaries.
- Public works expenses increased by approximately \$301,315. In 2006 there was an adjustment of \$175,000 to the net pension obligation for DPW defined benefit plan which reduced expenses; there was no such adjustment for 2007.

The City's Funds

Our analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2007 include the General Fund, Major Streets, and Local Streets.

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$1.4 million in 2007. Police services are partially supported by a 1.5 mill levy which is designated specifically for police protection.

City of Davison, Michigan

Management's Discussion and Analysis (Continued)

Capital Assets

At the end of 2007, the City had invested approximately \$4.5 million in capital assets, net of related debt. Capital assets as stated in this annual financial report do not include some prior year infrastructure items such as sidewalks and streets. Financial reporting in past years has not required some infrastructure items to be included with capital assets. Recognizing the problem of having cities gather together all of the required information, GASB has allowed cities to comply with this portion of Statement 34 prospectively. Additional information on the City's capital assets can be found in Note III C of this report.

Long-term Debt

At year-end, the City had \$469 thousand in bonds and other debt outstanding for governmental activities and \$6.4 million in bonds and other debt outstanding for business type activities. The City has commenced an inflow and infiltration project, which will be funded with general obligation bonds. The repayment of the general obligation bonds will be repaid through a 1.35 mill levy approved by the voters.

Contacting the City's Financial Administration

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Davison, 200 E. Flint Street, Davison, Michigan 48423.

Basic Financial Statements

Government-wide Financial Statements

City of Davison

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,096,223	\$ 419,704	\$ 1,515,927
Investments	1,913,962	2,426,511	4,340,473
Receivables	71,119	307,318	378,437
Due from component units	50,000	-	50,000
Due from other governments	322,516	96,845	419,361
Internal balances	(14,390)	14,390	-
Inventory	4,417	19,801	24,218
Restricted assets:			
Cash and cash equivalents	-	480,587	480,587
Other assets	36,735	22,696	59,431
Capital assets (not depreciated)	1,754,252	1,000	1,755,252
Capital assets (net of accumulated depreciation)	1,459,485	8,123,114	9,582,599
Total assets	6,694,319	11,911,966	18,606,285
Liabilities			
Accounts payable	31,493	53,556	85,049
Accrued liabilities	140,124	2,706	142,830
Deposits	-	4,852	4,852
Due to primary government	-	-	-
Due to other governments	173,730	-	173,730
Noncurrent liabilities:			
Due within one year	8,303	329,070	337,373
Due in more than one year	460,881	6,059,981	6,520,862
Total liabilities	814,531	6,450,165	7,264,696
Net Assets			
Invested in capital assets, net of related debt	2,797,227	1,735,063	4,532,290
Restricted for:			
Street maintenance and construction	778,578	-	778,578
Streetscape	-	-	-
Debt service	61,467	-	61,467
Capital projects	37,818	1,520,472	1,558,290
Other purposes	13,749	-	13,749
Unrestricted	2,190,949	2,206,266	4,397,215
Total net assets	\$5,879,788	\$5,461,801	\$11,341,589

See Notes to Financial Statements.

Statement of Net Assets June 30, 2007

Component Units	
Downtown Development Authority	Local Development Finance Authority
\$ 105,072	\$ 72,491
-	50,000
-	-
-	-
-	-
-	-
-	-
-	-
-	-
-	-
3,117	-
108,189	122,491
5,836	2,580
-	-
-	-
50,000	-
-	-
-	-
-	-
55,836	2,580
3,117	-
-	-
461	-
-	-
-	-
-	-
48,775	119,911
\$ 52,353	\$119,911

City of Davison

Functions\Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
Primary government:			
Governmental activities:			
Legislative	\$ 28,045	\$ -	\$ -
General government	627,057	373,986	-
Public safety	1,384,868	29,080	-
Public works	866,054	225,519	341,102
Recreation and culture	322,893	51,254	-
Interest on long-term debt	2,319	-	-
Total governmental activities	3,231,236	679,839	341,102
Business-type Activities			
Sewer	781,010	869,846	10,500
Water	1,105,937	955,179	31,440
Total business-type activities	1,886,947	1,825,025	41,940
Total primary government	\$ 5,118,183	\$ 2,504,864	\$ 383,042
Component Units			
Davison Downtown Development Authority	\$ 129,564	\$ -	\$ 25,195
Davison Local Finance Development Authority	50,322	-	-
Total component units	\$ 179,886	\$ - 0 -	\$ 25,195
General revenues:			
Property taxes			
State shared revenues			
Franchise fees			
Gain (loss) on disposal of capital assets			
Unrestricted investment earnings			
Total general revenues			
Change in Net Assets			
Net Assets - Beginning of year			
Net Assets - Ending of year			

See Notes to Financial Statements.

Statement of Activities
Year Ended June 30, 2007

Net (Expense) Revenue and Changes in Net Assets					
Capital Grants and Contributions	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority	Local Development Finance Authority
\$ -	\$ (28,045)	\$ -	\$ (28,045)	\$ -	\$ -
-	(253,071)	-	(253,071)	-	-
-	(1,355,788)	-	(1,355,788)	-	-
-	(299,433)	-	(299,433)	-	-
-	(271,639)	-	(271,639)	-	-
-	(2,319)	-	(2,319)	-	-
-	(2,210,295)	-	(2,210,295)	-	-
96,845	-	196,181	196,181	-	-
-	-	(119,318)	(119,318)	-	-
96,845	-	76,863	76,863	-	-
\$ 96,845	(2,210,295)	76,863	(2,133,432)	-	-
\$ -	-	-	-	(104,369)	-
-	-	-	-	-	(50,322)
\$ - 0 -	-	-	-	(104,369)	(50,322)
	1,425,485	-	1,425,485	115,769	48,585
	591,951	-	591,951	-	-
	88,923	-	88,923	-	-
	-	(7,636)	(7,636)	-	-
	153,472	156,466	309,938	5,500	835
	2,259,831	148,830	2,408,661	121,269	49,420
	49,536	225,693	275,229	16,900	(902)
	5,830,252	5,236,108	11,066,360	35,453	120,813
	\$ 5,879,788	\$ 5,461,801	\$ 11,341,589	\$ 52,353	\$ 119,911

See Notes to Financial Statements.

Fund Financial Statements

City of Davison

Balance Sheet Governmental Funds June 30, 2007

	General	Major Street	Local Street	Nonmajor Governmental Funds	Totals
Assets					
Cash and cash equivalents	\$ 241,801	\$ 410,101	\$ 57,013	\$ 114,916	\$ 823,831
Investments	1,261,915	100,000	150,000	-	1,511,915
Receivables:					
Taxes	10,814	-	-	-	10,814
Accounts	35,512	9,800	-	-	45,312
Special assessments	-	-	2,507	-	2,507
Interest	6,695	693	1,040	-	8,428
Prepaid	36,735	-	-	-	36,735
Due from other funds	8,493	1,005	716	-	10,214
Due from other governmental units	267,803	40,817	13,896	-	322,516
Due from component units	50,000	-	-	-	50,000
Inventory	4,417	-	-	-	4,417
Total assets	\$ 1,924,185	\$ 562,416	\$ 225,172	\$ 114,916	\$ 2,826,689
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 27,106	\$ 3,095	\$ 84	\$ -	\$ 30,285
Accrued liabilities	135,343	369	2,876	-	138,588
Due to other funds	23,955	79	-	570	24,604
Due to other governments	171,598	-	-	2,132	173,730
Deferred revenue	79,921	-	2,507	-	82,428
Total liabilities	437,923	3,543	5,467	2,702	449,635
Fund Balances					
Reserved for:					
Inventory	4,417	-	-	-	4,417
Prepays	36,735	-	-	-	36,735
Disaster relief	1,000	-	-	-	1,000
Unreserved, reported in:					
General fund	1,444,110	-	-	-	1,444,110
Debt service funds	-	-	-	61,647	61,647
Special revenue funds	-	558,873	219,705	12,749	791,327
Capital projects fund	-	-	-	37,818	37,818
Total fund balances	1,486,262	558,873	219,705	112,214	2,377,054
Total liabilities and fund balances	\$ 1,924,185	\$ 562,416	\$ 225,172	\$ 114,916	\$ 2,826,689

See Notes to Financial Statements.

Reconciliation of the Balance Sheet to the Statement of Net Assets Year Ended June 30, 2007

Fund balances reported in governmental funds	\$ 2,377,054
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,945,669
Other long term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	82,428
Long term liabilities, including other debt, are not due and payable in the current period, and therefore, are not reported in the funds.	(469,184)
Internal service fund is included as part of governmental activities	<u>943,821</u>
Net assets of governmental activities	<u><u>\$ 5,879,788</u></u>

City of Davison

Statement of Revenue, Expenditures, and Changes in Fund Balances - Governmental Funds Year Ended June 30, 2007

	General	Major Street	Local Street	Nonmajor Governmental Funds	Totals
Revenue					
Property taxes	\$ 1,425,463	\$ -	\$ -	\$ 22	\$ 1,425,485
Special assessments	-	-	941	-	941
Licenses and permits	13,573	-	-	-	13,573
Intergovernmental revenue:					
State and local	650,732	256,475	84,627	-	991,834
Charges for services	99,510	-	-	195,684	295,194
Fines and forfeits	20,313	-	-	-	20,313
Interest income	74,349	26,195	8,789	12,107	121,440
Miscellaneous revenue	206,682	-	-	-	206,682
Total revenue	2,490,622	282,670	94,357	207,813	3,075,462
Expenditures					
Legislative	22,945	-	-	-	22,945
General governmental	381,506	-	-	-	381,506
Public safety	1,456,673	-	-	-	1,456,673
Public works	393,688	197,170	163,453	199,420	953,731
Recreation and cultural	268,422	-	-	-	268,422
Capital outlay	-	-	-	2,862	2,862
Debt service:					
Principal payments	7,857	-	-	95,000	102,857
Interest and fiscal charges	-	-	-	2,319	2,319
Total expenditures	2,531,091	197,170	163,453	299,601	3,191,315
Excess (deficiency) of revenue over expenditures	(40,469)	85,500	(69,096)	(91,788)	(115,853)
Other Financing Sources (Uses)					
Transfers in	-	5,000	63,680	-	68,680
Transfers out	(10,000)	(58,680)	-	-	(68,680)
Total other financing sources (uses)	(10,000)	(53,680)	63,680	-	-
Net change in fund balances	(50,469)	31,820	(5,416)	(91,788)	(115,853)
Fund Balances - Beginning of year	1,536,731	527,053	225,121	204,002	2,492,907
Fund Balances - End of year	\$ 1,486,262	\$ 558,873	\$ 219,705	\$ 112,214	\$ 2,377,054

See Notes to Financial Statements.

City of Davison

Governmental Funds **Reconciliation of the Statement of Revenue, Expenditures,** **and Changes in Fund Balances of Governmental Funds** **to the Statement of Activities** **Year Ended June 30, 2007**

Net Change in Fund Balances - Total Governmental Funds	\$ (115,853)
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Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures; however, in the
statement of activities the cost of those assets is allocated over their estimated
useful lives and reported as depreciation:

Capital outlay	38,641
Depreciation expense	(51,971)

Revenues are recorded in the statement of activities when earned; they are not reported in the funds until collected or collectible within 60 days of year end	(31,179)
--	----------

Repayment of debt principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	101,604
--	---------

Increase in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities do not require the use of current resources, and therefore are not reported in the fund statements until they come due for payment	(12,780)
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Internal Service Funds are also included as governmental activities	121,074
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Change in Net Assets of Governmental Activities	\$ 49,536
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Statement of Net Assets Proprietary Funds June 30, 2007

	Business-type Activities- Enterprise Funds			Internal Service Fund
	Sewer	Water	Totals	
Assets				
Current assets:				
Cash and cash equivalents	\$ 222,211	\$ 197,493	\$ 419,704	\$ 272,390
Investments	1,256,607	1,169,904	2,426,511	402,048
Accounts receivable	153,612	146,227	299,839	-
Accrued interest	7,479	-	7,479	4,061
Due from other governments	96,845	-	96,845	-
Due from other funds	79	46,429	46,508	-
Inventory of supplies	-	19,801	19,801	-
Total current assets	1,736,833	1,579,854	3,316,687	678,499
Noncurrent assets:				
Restricted cash and cash equivalents	-	480,587	480,587	-
Bond issuance costs	-	22,696	22,696	-
Capital assets:				
Land	-	1,000	1,000	-
Buildings	-	139,395	139,395	-
Improvements other than buildings	2,500,266	8,990,897	11,491,163	-
Machinery and equipment	104,176	69,996	174,172	1,077,209
Accumulated depreciation	(1,776,159)	(1,905,457)	(3,681,616)	(809,141)
Total capital assets, net	828,283	7,295,831	8,124,114	268,068
Total non current assets	828,283	7,799,114	8,627,397	268,068
Total assets	2,565,116	9,378,968	11,944,084	946,567

See Notes to Financial Statements.

Statement of Net Assets Proprietary Funds (Continued) June 30, 2007

	Business-type Activities- Enterprise Funds			Internal Service Fund
	Sewer	Water	Totals	
Liabilities				
Current liabilities:				
Accounts payable	53,187	369	53,556	1,208
Accrued liabilities	487	2,219	2,706	1,538
Payable from restricted assets:				
Water meter deposits	-	4,852	4,852	-
Bonds payable - current	-	325,000	325,000	-
Due to other funds	32,118	-	32,118	-
Current portion - debt	2,035	2,035	4,070	-
Total current liabilities	87,827	334,475	422,302	2,746
Noncurrent liabilities:				
Bonds payable	-	6,059,981	6,059,981	-
Total liabilities	87,827	6,394,456	6,482,283	2,746
Net Assets				
Invested in capital assets, net of related debt	826,248	908,815	1,735,063	268,068
Restricted for capital improvement	597,800	922,672	1,520,472	-
Unrestricted	1,053,241	1,153,025	2,206,266	675,753
Total net assets	\$ 2,477,289	\$ 2,984,512	\$ 5,461,801	\$ 943,821

City of Davison

Statement of Revenue, Expenses, and Changes in Net Assets Proprietary Funds Year Ended June 30, 2007

	Business-type Activities- Enterprise Funds			Internal Service Fund
	Sewer	Water	Totals	
Operating Revenue				
Charges for services	\$ 869,445	\$ 928,721	\$ 1,798,166	\$ 346,967
Operating Expenses				
Sewage maintenance	15,530	-	15,530	-
Water plant operations	-	50,677	50,677	-
Wages and benefits	202,124	359,626	561,750	85,606
Treatment fees	417,563	-	417,563	-
Supplies	13,452	49,670	63,122	55,188
Heat, light, power	740	61,587	62,327	-
Depreciation	48,825	223,534	272,359	74,111
Amortization	-	2,411	2,411	-
Equipment maintenance and repair	27,261	82,384	109,645	20,866
Building rent and maintenance	20,326	20,326	40,652	7,101
Insurance expense	8,921	12,707	21,628	15,054
Professional fees	6,452	9,329	15,781	-
Sampling	-	12,481	12,481	-
Miscellaneous	19,816	33,290	53,106	-
Total operating expenses	781,010	918,022	1,699,032	257,926
Operating income	88,435	10,699	99,134	89,041
Nonoperating Revenue (Expenses)				
Intergovernmental grant	96,845	20,040	116,885	-
Tower rentals	-	22,683	22,683	-
Interest revenue	71,646	84,820	156,466	32,033
Miscellaneous	401	3,775	4,176	-
Loss on disposal of capital assets	(3,818)	(3,818)	(7,636)	-
Interest expense and fiscal charges	-	(187,915)	(187,915)	-
Total nonoperating revenue (expenses)	165,074	(60,415)	104,659	32,033
Income (Loss) - Before contributions and transfers	253,509	(49,716)	203,793	121,074
Capital Contributions - Tap fees	10,500	11,400	21,900	-
Changes in Net Assets	264,009	(38,316)	225,693	121,074
Net Assets - Beginning of year	2,213,280	3,022,828	5,236,108	822,747
Net Assets - End of year	\$ 2,477,289	\$ 2,984,512	\$ 5,461,801	\$ 943,821

See Notes to Financial Statements.

City of Davison

Statement of Cash Flows Proprietary Funds Year Ended June 30, 2007

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
Cash Flows from Operating Activities				
Receipts from customers	\$ 841,787	\$ 931,083	\$ 1,772,870	\$ 346,967
Payments to suppliers	(513,318)	(332,209)	(845,527)	(99,128)
Payments to employees	(203,290)	(359,074)	(562,364)	(84,845)
Net cash provided by operating activities	125,179	239,800	364,979	162,994
Cash flows from Noncapital Financing Activities				
Repayment of interfund receivables and payables	(15,090)	14,953	(137)	-
Cash Flows from Capital and Related Financing Activities				
Purchase of capital assets	(64,900)	-	(64,900)	(114,968)
Tap in revenue	10,500	11,400	21,900	-
Grant revenue	-	20,040	20,040	-
Interfund transfers	-	-	-	-
Repayment of long-term debt	(2,035)	(317,035)	(319,070)	-
Interest paid on capital debt	-	(187,915)	(187,915)	-
Net cash used in capital and related related financing activities	(56,435)	(473,510)	(529,945)	(114,968)
Cash Flows from Investing Activities				
Purchase of investments	14,087	(213,156)	(199,069)	-
Rentals and other miscellaneous charges	401	26,459	26,860	-
Interest earned	66,544	84,820	151,364	27,972
Net cash provided by (used in) investing activities	81,032	(101,877)	(20,845)	27,972
Net Increase (decrease) in Cash and Cash Equivalents	134,686	(320,634)	(185,948)	75,998
Cash and Cash Equivalents - Beginning of year	87,525	998,714	1,086,239	196,392
Cash and Cash Equivalents - End of year	\$ 222,211	\$ 678,080	\$ 900,291	\$ 272,390
Reconciliation of Operating Income to Net Cash from Operating Activities				
Operating income	\$ 88,435	\$ 10,699	\$ 99,134	\$ 89,041
Adjustments to reconcile operating income to net cash from operating activities:				
Depreciation and amortization	48,825	225,945	274,770	74,111
Changes in operating assets and liabilities:				
Accounts receivable	(27,658)	1,462	(26,196)	-
Accounts payable	16,743	242	16,985	(919)
Accrued liabilities	(1,166)	552	(614)	761
Water meter deposits	-	900	900	-
Net cash provided by operating activities	\$ 125,179	\$ 239,800	\$ 364,979	\$ 162,994

Non Cash Activities

Included in accounts payable at June 30, 2007 is \$11,824 of capital asset additions.

See Notes to Financial Statements.

City of Davison

Statement of Fiduciary Net Assets June 30, 2007

	Pension Trust Fund	Agency Fund
Assets		
Cash and cash equivalents:		
Bank deposits	\$ -	\$ 99,787
Investments:		
Annuity contracts	475,865	-
Receivables - bonds	-	1,862
Total assets	\$ 475,865	\$ 101,649
Liabilities		
Due to other governments	\$ -	\$ 101,649
Net Assets Held in Trust for Pension Benefits	\$ 475,865	\$ -

City of Davison

Statement of Changes in Fiduciary Net Assets Pension Trust Fund Year Ended June 30, 2007

	Pension Benefit Trust Fund
Additions	
Contributions - employer	\$ 129,000
Investment income: Gain	349,942
Total additions	478,942
Deductions	
Benefit payments	213,486
Premiums	90,743
Administrative expenses	3,720
Total deductions	307,949
Net Increase in Net Assets Held	170,993
Net Assets Held in Trust for Pension Benefits	
Beginning of year	304,872
End of year	<u><u>\$ 475,865</u></u>

Notes to Basic Financial Statements

Note I - Summary of Significant Accounting Policies

A. Reporting entity

The City of Davison was incorporated in 1939, under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates a Council-Mayor form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The accounting policies of the City of Davison (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of significant accounting policies used by the City of Davison:

Principles used in determining the scope of the entity for financial reporting purposes:

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Davison (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Blended component units:

Component units - In conformity with generally accepted accounting principles, the financial statements of component units have been included in the financial reporting entity either as blended component units or as discretely presented component units.

Blended component units - for financial reporting purposes, City of Davison Building Authority has been reported as if it were a part of this City's operations because:

- City has pledged its full faith and credit as a guarantee for the Authority's outstanding debt
- City is obligated to fund deficits of the Authority

Davison Area Library

- The City has entered into an agreement between the Township of Davison, the City of Davison, and Richfield Township to share the expenses of providing a library for the use of the residents of the three governmental units. The City of Davison maintains the accounting records for the library as a general fund activity center with the Townships of Davison and Richfield reimbursing the City for their share of the library expenses. The municipalities share the expenses of the library according to the following percentages: 35% by the City, 50% by Davison Township, and 15% by Richfield Township.

Note I - Summary of Significant Accounting Policies (Continued)

A. Reporting entity (continued)

Principles used in determining the scope of entity for financial reporting purposes: - (continued)

Discretely presented component units:

Discretely presented component units - The component units' columns in the combined financial statements include the financial data of the City's other component units. These units are reported in a separate column to emphasize that it is legally separate from the City.

The Authority's do not publish separate financial statements.

City of Davison Downtown Development Authority (DDA)

- City appoints governing board
- City approves budget of DDA
- City must approve any tax levy of the DDA
- Surplus funds existing at termination of DDA vest to the City

City of Davison Local Development Finance Authority (LDFA)

- City appoints the governing board members
- City Council approves the budget of LDFA
- City must approve any tax increment financing plan
- Surplus funds existing at termination of LDFA vest to the City

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, normally supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Note I - Summary of Significant Accounting Policies (Continued)

B. Government-wide and fund financial statements (continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be *available* when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, and interest associated with the current fiscal period. Conversely, special assessments and grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and charges for services associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major and Local Street Funds account for the City's share of proceeds from gas and weight taxes levied by the State and distributed to local governmental units. State law requires that these taxes be used for street maintenance and construction. The City of Davison has decided to show these funds as major governmental funds.

Note I - Summary of Significant Accounting Policies (Continued)

C. Measurement focus, basis of accounting, and financial statement presentation (continued)

The government reports the following major proprietary funds:

The Water Supply and Sewer Disposal System is a division of the City's Department of Public Work. Separate funds are maintained for the operations of the water distribution system and sewage pumping and collection system.

Additionally, the government reports the following fund types:

Internal service funds account for fleet management services provided to other departments or agencies of the government, or to other governments on a cost reimbursement basis.

The pension trust fund accounts for the activities of the non-union pension plan which accumulates resources for pension benefit payments to qualified employees.

Agency Funds account for assets held by the City as an agent for individuals, private organizations and other governments.

Agency funds are reported as fiduciary funds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to first apply restricted resources.

Proprietary funds distinguish *operating* revenue and expenses from *non-operating* items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Water and Sewer enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, liabilities, and net assets or equity

I. Deposits

The City and its component units have classified all checking and savings accounts as cash and cash equivalents.

The City and its component units consider all highly liquid investments (including restricted assets) with a maturity of three months or more when purchased to be investments.

Note 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, liabilities, and net assets or equity (continued)

2. Investments:

Investments for the City, as well as for its component units, are stated at fair value. Certificates of deposit with a maturity date of greater than three months at time of purchase are recorded as investments on the financial statements.

3. Receivables and payables

In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade, notes, contracts, and property tax receivables are shown net of an allowance for uncollectibles. No allowance has been recorded as management deems all receivables to be collectible.

4. Inventories and prepaid items

All inventories are valued at the lower of cost or market using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Restricted assets

The revenue bonds of the Enterprise Funds require amounts to be set aside for debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

6. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

In accordance with accounting principles generally accepted in the United States of America, recorded infrastructure assets include only those acquired during the fiscal years ended June 30, 2004 to 2006, prior to the implementation of GASB No. 34, records on these assets were not maintained. The City is not required to retroactively determine costs and accumulated depreciation prior to July 1, 2003.

Note I - Summary of Significant Accounting Policies (Continued)

D. Assets, liabilities, and net assets or equity (continued)

6. Capital assets – (continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	39
Improvements other than buildings	10-40
Machinery and equipment	5-7
Infrastructure	39-40

7. Deferred revenue

Deferred revenue represent receipts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. The City reported as deferred revenues the amount of \$2,507 in the Local Streets Special Revenue Fund, which relates directly to special assessments receivable. See footnote III F for details of a long-term rent receivable which has been shown as deferred revenue (\$79,925) in the General Fund.

8. Accumulated unpaid vacation and sick pay

At June 30, 2007, unrecorded liabilities for salaried sick pay are zero since any unused sick days at June 30 have been paid to each employee (other than police department and DPW employees), at 1/2 of their unused days. The unrecorded liability for salaried vacation pay is minimal and has not been accrued at June 30, 2007. The DPW is allowed to carry over 10 days of leave time. DPW employees are paid out upon retirement or death. Police department employees are allowed to carry over their maximum amount of leave time available in one year (based on years of service) plus 100 hours. Police department employees are paid out upon retirement, death, or separation. The DPW and police department liability has been accrued in the government-wide financial statements.

9. Long-term obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Note 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, liabilities, and net assets or equity (continued)

9. Long-term obligations – (continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balances represent tentative management plans that are subject to change.

11. Property tax

Property taxes attach as an enforceable lien on all taxable real and personal property as of December 1. Taxes are levied on the following July 1, are payable on August 31, and collected without penalty through September 30. The City bills and collects its own property taxes and also taxes for the county and several school districts within its jurisdiction. Collections and remittances of the county and school taxes are accounted for in the Current Tax Agency Fund. City property tax revenues are recognized as revenue in the fiscal year levied to the extent that they are measurable and available. Property tax administration fee revenue is recognized as revenue when received.

The City is permitted by charter to levy up to \$13.5 (13.5 mills) per \$1,000 of taxable value for general governmental services. For the year ended June 30, 2007, the City levied \$11.2837 per \$1,000 for general governmental services. Included in the maximum levy is 1.5 mills, which is designated specifically for police protection. As of June 30, 2007, \$1.5 per \$1,000 of taxable value was being levied for police services. The City is permitted to levy unlimited amounts for payment of existing general long-term debt obligations. As of June 30, 2007, there were no levies for long term debt retirement. The above noted millages resulted in \$1,289,235 of taxes for operating and \$171,251 of taxes for police protection.

Effective summer 2008, the City will begin levying 1.35 mills to be utilized to repay the 2007 General Obligation Bonds.

In 1981, the City's Downtown Development Authority (DDA) entered into tax incremental financing agreements with the City, Genesee County, Genesee Intermediate Schools, and Davison Community Schools for a fifteen-year period. In 1997, this plan was renewed with all units of government except Davison Community Schools for an additional fifteen years. (Proposal A passed by Michigan taxpayers eliminated the school millage from the calculation of the mills to be used to compute the taxes on the increase in assessed value within the tax increment financing area that can be captured.) Also in 2000 the DDA expanded its boundaries and adopted a new District 2 plan.

Note I - Summary of Significant Accounting Policies (Continued)

D. Assets, liabilities, and net assets or equity (continued)

11. Property tax – (continued)

The captured taxable values in excess of the initial taxable values for June 30, 2007 by district are as follows:

District 1 -	\$ 1,900,282
District 2 -	754,924

The DDA is using the tax increment revenues to improve the plan areas and has created 30-40 jobs through the implementation of this plan.

In 1997, a Local Development Financing Authority (LDFA) was created to continue for a thirty-year period. The main difference between the LDFA Act and the DDA Act is that the LDFA district services manufacturing areas and does not have to be contiguous property. In 1997, the Davison LDFA entered into tax incremental financing agreements with the City of Davison and Genesee County. The LDFA's tax incremental revenue is calculated by multiplying the millage (of all entities involved) by the Captured Taxable Value (the difference between the current taxable value and the initial taxable value). The initial taxable values were established in 1997 (\$2,753,325).

The captured taxable value in excess of the initial taxable values for June 30, 2007 is \$1,624,291. The LDFA is using the tax increment revenues to improve the plan area and has created 21 jobs as a result of the implementation of the tax increment financing plan.

On April 20, 1998, the City Council of the City of Davison, Michigan, adopted a resolution to create the City of Davison Brownfield Redevelopment Authority (BRA) and to designate the Brownfield Zone within which the BRA will exercise its powers. The Brownfield Zone to which this Brownfield Plan (the "Plan") applies consists of the properties within the boundaries of the City of Davison, Michigan. The LDFA has agreed to supervise and control the Brownfield Redevelopment Authority (BRA).

The purpose of the Brownfield Plan, to be implemented by the BRA, is to satisfy the requirements for a Brownfield Plan as specified in Section 13 of Act No. 381 of the Public Acts of 1996. MCLA 125.2651 et. seq., which is known as the "Brownfield Redevelopment Financing Act."

The BRA has initially identified the following parcels of real estate which require, or which may require, undertaking certain eligible response activities to facilitate redevelopment under this Plan:

1. The Former Independent Oil Company Site, a "facility" located within the boundaries of the Downtown Development Authority, containing one or more underground storage tank(s) and contaminated soils and groundwater, requiring Phase II and baseline environmental assessments, due care, and additional response activities prior to being redeveloped as part of the Downtown Revitalization Plan.

Note 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, liabilities, and net assets or equity (continued)

11. Property tax – (continued)

2. The Former Davison Oil & Gas Site, a “facility” located within the boundaries of the Downtown Development Authority, consists of two contiguous parcels and a portion of a City street that will be eventually closed as part of the redevelopment. The property contains one or more underground storage tank(s) and contaminated soils and groundwater, and requires demolition of dilapidated building(s), Phase II, and baseline environmental assessments, due care, and additional response activities, and infrastructure improvements prior to being redeveloped as part of the Downtown Revitalization Plan.

The duration of the Brownfield Plan shall be thirty (30) years. As of June 30, 2007, there has been no activity for BRA.

Each Authority’s tax increment revenue is calculated by multiplying the millage (of all entities involved) times the captured taxable value (the difference between current taxable value and the initial assessed value). The initial assessed values were established in 1981 for the DDA District 1, 1996 for the expanded DDA District 2, and 1997 for the LDFA.

12. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

A. Budgetary information

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or before the second Monday in May, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them, for the General and Special Revenue Funds. Informational summaries of projected revenues and expenditures are provided for all other City funds, as well as estimated total costs and proposed methods of financing all capital construction projects.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of an ordinance and in accordance with Public Act 621 of 1978 of the State of Michigan. All funds’ budgets are enacted on a total fund basis.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

A. Budgetary information (continued)

4. Formal budgetary integration is employed as a management control device during the year for all budgetary funds. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) with the exception of the Special Revenue - Community Development Fund which is adopted on a project length basis.
5. Budget appropriations lapse at year end.
6. The original budget was amended during the year to be in compliance with the City Charter and applicable state law.
7. A reconciliation of the budgetary comparison schedule to the government-wide financial statement of for Davison Downtown Development Authority is as follows:

Davison Downtown Development Authority:	<u>Total Expenditures</u>
Balance per Budgetary Comparison Schedule	\$126,169
Depreciation Expense	<u>3,395</u>
Balance per Government-Wide Statements	<u>\$129,564</u>

B. Excess of expenditures over appropriations

The following funds incurred expenditures in excess of appropriations at the fund level during the year:

	<u>Final Budget</u>	<u>Actual</u>	Actual Over Amended Budget
Capital Improvement Fund	\$195,460	\$199,420	\$ 3,960

Note 3 - Detailed Notes on All Funds

A. Deposits and investments

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Note 3 - Detailed Notes on All Funds (Continued)

A. Deposits and investments (continued)

The City has designated eight banks for the deposits of its funds.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial credit risk of bank deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the City had \$4,376,284 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the city evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial credit risk of investments:

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name:

<u>Type of Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
Repurchase agreements	\$1,418,249	Counterparty

Interest rate risk:

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270 day maturity. At year end, investments consisted of an overnight repurchase agreement of \$1,418,249.

The nonunion pension plan investments consist of annuity contracts which are not rated and for which the internal interest rate is unknown.

Davison Downtown Development Authority has designated two banks for the deposit of its funds (JP Morgan/Chase and Oxford Bank). The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized all the above noted investments per the state statute. The DDA's deposits and investment policies are in accordance with statutory authority.

The DDA's cash and investments are subject to several types of risk, which are examined in more detail below:

Note 3 - Detailed Notes on All Funds (Continued)

A. Deposits and investments (continued)

Credit risk:

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Repurchase Agreement	\$1,418,249	Aaa	Standard & Poor

Custodial credit risk of bank deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. The DDA is not subject to deposit custodial credit risk at year end as all of the DDA's deposits were fully insured by FDIC coverage.

Custodial credit risk of investments:

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Authority's name:

<u>Type of Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
Repurchase Agreement (Sweep)	\$ 97,467	Counterparty

Credit risk:

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Repurchase Agreement	\$97,467	Aaa	Standard & Poor

The Davison Local Development Finance Authority has designated three banks for the deposit of its funds; JP Morgan Chase, Davison State Bank, and Citizens Bank. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in all items noted in the State statute. The LDFA's deposits and investment policies are in accordance with statutory authority.

Note 3 - Detailed Notes on All Funds (Continued)

A. Deposits and investments (continued)

The LDFA's cash is subject to one type of risk, which is examined in more detail below:

Custodial credit risk of bank deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the LDFA had \$45,854 of bank deposits (checking account) that were uninsured and uncollateralized. The LDFA believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the LDFA evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

B. Receivables

Receivables as of year end for the City's individual major funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

Governmental activities and fiduciary funds:

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Nonmajor Other Funds</u>	<u>Total</u>
Receivables:					
Interest	\$ 6,695	\$ 693	\$ 1,040	\$ -	\$ 8,428
Taxes	10,814	-	-	-	10,814
Accounts	35,512	9,800	-	-	45,312
Intergovernmental	267,803	40,817	13,896	-	322,516
Special assessment	-	-	2,507	-	2,507
Gross receivables	320,824	51,310	17,443	-	389,577
Less: allowance for uncollectibles	-	-	-	-	-
Net total receivables	<u>\$320,824</u>	<u>\$ 51,310</u>	<u>\$ 17,443</u>	<u>\$ -0-</u>	<u>\$389,577</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Special Assessments not yet due (local streets)	\$ 2,507	\$ -
Long-term notes receivables (general fund)	79,921	-
Total deferred/unearned revenue for governmental funds	<u>\$82,428</u>	<u>\$ -0-</u>

City of Davison, Michigan

Notes to Financial Statements June 30, 2007

Note 3 - Detailed Notes on All Funds (Continued)

B. Receivables (continued)

Business type activities:

	Sewer Fund	Water Fund	Total
Receivables:			
Accounts	\$153,612	\$146,227	\$299,839
Accrued interest	7,479	-	7,479
Intergovernmental	96,845	-	96,845
Gross receivables	257,936	146,227	404,163
Less: allowance for uncollectibles	-	-	-
Net total receivables	<u>\$257,936</u>	<u>\$146,227</u>	<u>\$404,163</u>

C. Capital assets

Capital asset activity for the year ended June 30, 2007 was as follows:

Primary Government

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,754,252	\$ -	\$ -	\$1,754,252
Total capital assets, not being depreciated	<u>1,754,252</u>	<u>-</u>	<u>-</u>	<u>1,754,252</u>
Capital assets, being depreciated:				
Buildings	1,239,229	-	-	1,239,229
Improvements other than buildings	648,712	-	-	648,712
Machinery and equipment	1,547,078	122,363	(72,860)	1,596,581
Infrastructure	557,289	38,660	-	595,949
Total capital assets being depreciated	<u>3,992,308</u>	<u>161,023</u>	<u>(72,860)</u>	<u>4,080,471</u>
Less accumulated depreciation for:				
Buildings	(741,077)	(15,096)	-	(756,173)
Improvements other than buildings	(562,828)	(3,304)	-	(566,132)
Machinery and equipment	(1,249,570)	(93,394)	72,860	(1,270,104)
Infrastructure	(14,289)	(14,288)	-	(28,577)
Total accumulated depreciation	<u>(2,567,764)</u>	<u>(126,082)</u>	<u>72,860</u>	<u>(2,620,986)</u>
Total capital assets, being depreciated, net	<u>1,424,544</u>	<u>34,941</u>	<u>-</u>	<u>1,459,485</u>
Governmental activities capital assets, net	<u>\$ 3,178,796</u>	<u>\$ 34,941</u>	<u>\$ -0-</u>	<u>\$ 3,213,737</u>

City of Davison, Michigan

Notes to Financial Statements June 30, 2007

Note 3 - Detailed Notes on All Funds (Continued)

C. Capital assets (continued)

Primary Government (continued)

	Beginning Balance	Additions	Disposals	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Capital assets, being depreciated:				
Building	139,395	-	-	139,395
Systems	11,414,439	76,724	-	11,491,163
Machinery and equipment	191,183	-	(17,011)	174,172
Total capital assets, being depreciated	11,745,017	76,724	(17,011)	11,804,730
Less accumulated depreciation for:				
Buildings	(36,524)	(3,429)	-	(39,953)
Systems	(3,290,122)	(249,673)	-	(3,539,795)
Machinery and equipment	(91,986)	(19,257)	9,375	(101,868)
Total accumulated depreciation	(3,418,632)	(272,359)	9,375	(3,681,616)
Total capital assets, being depreciated, net	8,326,385	(195,635)	(7,636)	8,123,114
Business-type activities capital assets, net	<u>\$ 8,327,385</u>	<u>\$(195,635)</u>	<u>\$ (7,636)</u>	<u>\$ 8,124,114</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

Current:

General government	\$114,489
Public safety	3,406
Public works	4,884
Recreation and culture	<u>3,303</u>

Total depreciation expense – governmental activities \$126,082

Business-type activities:

Sewer	\$223,534
Water	<u>48,825</u>

Total depreciation expense – Business-type activities \$272,359

City of Davison, Michigan

Notes to Financial Statements June 30, 2007

Note 3 - Detailed Notes on All Funds (Continued)

C. Capital assets (continued)

Discretely presented component units:

Activity for the City of Davison Downtown Development Authority (DDA) for the year ended June 30, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Machinery and equipment	\$ 31,110	\$ -	\$ -	\$ 31,110
Totals, capital assets being depreciated	31,110	-	-	31,110
Less accumulated depreciation for:				
Machinery and equipment	(24,598)	(3,395)	-	(27,993)
Total accumulated depreciation	(24,598)	(3,395)	-	(27,993)
Total capital assets, being depreciated, net	6,512	(3,395)	-	3,117
Capital assets, net	\$ 6,512	\$ (3,395)	\$ -0-	\$ 3,117

D. Interfund receivables, payables, and transfers

The composition of interfund balances as of June 30, 2007 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Sewer	\$ 7,923
General	Community development	570
Local Streets	General	716
Major Streets	General	1,005
Sewer	Major Streets	79
Water	General	22,234
Water	Sewer	24,195
		<u>\$ 56,722</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system and payments between funds are made.

Due to/from primary government and component units:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
City of Davison General Fund	Davison Downtown Development Authority	<u>\$ 50,000</u>

City of Davison, Michigan

Notes to Financial Statements June 30, 2007

Note 3 - Detailed Notes on All Funds (Continued)

D. Interfund receivables, payables, and transfers (continued)

	Transfer In				
	Major Streets	Local Streets	Nonmajor Governmental	Internal Service Funds	Total
Transfer out:					
General fund	\$ 5,000	\$ 5,000	\$ -	\$ -	\$ 10,000
Major streets	-	58,680	-	-	58,680
Nonmajor governmental funds	-	-	-	-	-
Total transfers out	\$ 5,000	\$ 63,680	\$ -0-	\$ -0-	\$ 68,680

Transfers between funds were primarily for operating purposes.

E. Long-term rent receivable

The City entered into a long-term lease with the State of Michigan for space located at 300 North Main Street to be used as a Secretary of State office. This lease calls for an initial term (noncancelable) of ten years with two renewal options of five years each. The initial ten year term has been recorded in the General Fund as a receivable and deferred revenue. The rent will be received as detailed below:

Fiscal Year Ending	Rent
2008	\$ 29,735
2009	29,735
2010	20,451
	<u>\$ 79,921</u>

F. Commitments

The City of Davison purchased three properties within the LDFA's boundaries through an installment purchase agreement. The installment agreements require yearly interest payments with the principal due October 19, 2019, October 1, 2020, and February 1, 2021, respectively. The LDFA has verbally agreed to contribute the annual interest payments to the City of Davison for up to fifteen years.

Note 3 - Detailed Notes on All Funds (Continued)

F. Commitments (continued)

The following is the estimated interest for all properties:

<u>Fiscal Year Ending</u>	<u>Rent</u>
2008	\$ 19,039
2009	19,039
2010	19,039
2011	19,039
2012	19,039
2013-2016	95,195
2017-2020	75,156
	<u>\$265,546</u>

G. DDA proposed improvement projects

The location, extent, and character of the proposed improvements noted in the DDA's plan are identified below. It is estimated that the projects will be completed by the year 2012.

Future minimum payment required under the plan to complete each project are as follows:

<u>Project Priority</u>	<u>Project Description</u>	<u>Location</u>	<u>Estimated Cost</u>
High	Streetscape	Second to Main Street	\$50,000 - \$60,000
High	Repave and rebuild sidewalks	District wide	30,000
Medium	Decorative lighting	District wide	130,000
Medium	Streetscape	M-15 length of the District	250,000
Medium	Farmer's Market	Main and Second Street	50,000
Low	ADA Compliance program	District wide	(cost based on study depth)
Low	Commercial property	Corner of Mill Street and M-15	400,000
Low	Mill Street improvements		75,000
Low	Parking deck construction	End of East Second Street	1,000,000
On-going	DDA administration and Promotional activities	District wide	variable

Note 3 - Detailed Notes on All Funds (Continued)

H. LDFA proposed improvement projects

The location, extent, and character of the proposed improvements noted in the LDFA's plan are identified below. It is estimated that the projects will be completed by the year 2017.

Future minimum payment required under the plan to complete each project are as follows:

<u>Short-term projects (current – 2008)</u>	<u>Estimated Cost</u>
Signage – to better promote industrial properties, corporate identification and directional signage will be situated at appropriate locations on M-15 and on West Rising Street	\$ 25,000
Overhead street lighting	35,000
Sidewalks – to promote pedestrian safety, sidewalks may be developed throughout the Development District with high priority given to both Dayton Street and West Rising Street	*Variable
<u>Long-term projects (2008 – 2017)</u>	
Landscaping	*Variable
Speculative building program	250,000
Parking – improved parking to better serve industrial facilities is considered a long-term priority. Expansion of existing facilities will require special attention to increased parking needs. Possible new ingress and egress on permanent easement to allow public financial participation is a potential solution to the problem.	*Variable
<u>On-going projects (current – 2017)</u>	
Land acquisition	400,000
Infrastructure improvements – extending the water and sewer lines and East Rising Road as a way to attract new industrial investment to the possible expansion area.	240,000
Administration – these funds will be allocated to operating expenses such as: a full/part-time administrator, supplies, materials, postage, newspaper publications, etc.	50,000
Professional services – these services will include, but not be limited to; legal, financial/auditing, marketing, advertising, grant assistance, planning, and design related services.	90,000
Contingencies – set at approximately 10 percent of total anticipated expenditures to cover project cost overruns and other unforeseen expenses.	121,000
Total	<u>\$1,211,000</u>

Note 3 - Detailed Notes on All Funds (Continued)

I. Description of Brownfield costs to be paid for with tax increment revenues and summary of eligible activities

Brownfield costs to be paid by the LDFA with tax increment revenues include, but are not limited to, the following:

- Phase I and II environment assessments
- Baseline environmental assessments
- Soil and groundwater investigations
- Underground storage tank removals
- Soil and/or groundwater remediation
- Building demolitions
- Due care activities (required by MDEQ)
- Associated infrastructure repairs associated with response activities
- Administration costs (work plans, MDEQ approvals, Authority administrative/operating expenses)

Costs for preliminary eligible activities that may be paid with tax increment revenues, associated with the projects approved by the LDFA and Davison City Council, are described below. Delineation of additional eligible activities to be conducted as part of a development agreement between the LDFA and the developer or owner of the eligible properties is deferred until certain baseline assessments and investigations are completed under this Plan.

Former Independent Oil Company Site

<u>Activity</u>	<u>Cost</u>
Groundwater investigation	\$ 19,000
Remedial action plan	3,000
Baseline environmental assessment	4,500
Soil contamination abatement ⁽¹⁾	25,000
UST removal	9,000
Groundwater contamination abatement ⁽²⁾	-
Infrastructure repairs	7,000
Administration	6,800
Interest ⁽³⁾	56,551
Total	<u>\$130,851</u>

(1) Cost based on engineering controls; may be revised based on MDEQ review of RAP.

(2) Extent of groundwater contamination unknown at this time; abatement costs will be determined following investigation.

(3) Interest calculated based on 6% for 21 years.

Note 3 - Detailed Notes on All Funds (Continued)

I. Description of Brownfield costs to be paid for with tax increment revenues and summary of eligible activities (continued)

Former Davison Oil & Gas Site

<u>Activity</u>	<u>Cost</u>
Soil and groundwater investigation	\$ 55,000
Remedial action plan	5,500
Baseline environmental assessment	5,000
Soil contamination abatement ⁽¹⁾	60,000
Groundwater contamination abatement ⁽²⁾	-
Building demolition	25,000
UST removal	15,000
Infrastructure repairs	40,000
Administration	20,550
Interest ⁽³⁾	<u>353,768</u>
Total	<u>\$579,818</u>

(1) Extent of soil contamination uncertain at this time; cost estimate based on best case scenario.

(2) Presence and extent of groundwater contamination unknown at this time; abatement costs cannot be estimated at this time.

(3) Interest calculated based on annual payments through available tax increments captured.

J. Capital Leases

The City has entered into a lease agreement as lessee for financing the purchase of a copier. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the present value are as follows:

<u>Fiscal Year Ending</u>	<u>Amount</u>
2008	\$ 2,328
2009	2,328
2010	2,328
2011	<u>388</u>
Total minimum lease payments	7,372
Less amount representing interest	<u>(1,229)</u>
Present Value	<u>\$ 6,143</u>

City of Davison, Michigan

Notes to Financial Statements June 30, 2007

Note 3 - Detailed Notes on All Funds (Continued)

K. Long-term debt

The government issues bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Contractual agreements and installment purchase agreements are also general obligations of the government. All Michigan Municipal Bond Authority debt is secured by future State of Michigan Revenue Sharing payments the City is entitled to receive under state law. All revenue bonds are supported by the revenues generated from the operation of the respective facilities constructed. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

A summary of bond transactions for the year ended June 30, 2007, and the composition of the June 30, 2007, long-term debt balance follows:

	Final Payment Due	Interest Rate or Range	Balance at June 30, 2006	Issuances (Retirements) During Year	Balance at June 30, 2007	Due Within One Year
Governmental activities:						
Land purchases:						
Rising Street	10/1/2019	4.88%	\$167,950	\$ -	\$ 167,950	\$ -
South State Street	10/1/2020	4.37	125,814	-	125,814	-
Genesee Street	2/1/2021	4.65	110,000	-	110,000	-
1998 General Obligation						
Unlimited Tax Refunding						
Bonds	10/1/2006	3.9-4.25	95,000	(95,000)	-	-
Capital lease	8/10/2010	11.619	-	7,396		
				(1,253)	6,143	1,700
Accumulated vacation						
and sick pay			39,894	12,780	52,674	-
BS&A Software	6/30/2008	-	13,207	(6,604)	6,603	6,603
Total governmental activities			\$ 551,865	\$ (82,681)	\$ 469,184	\$ 8,303
Business - type activities:						
2003A Water Supply and						
Sewage Disposal System						
Revenue Refunding Bonds	9/2016	3.95%	\$ 555,000	\$ (45,000)	\$ 510,000	\$ 45,000
2003 Water Capital						
Improvement Bonds	10/1/2018	1.2-4.45	540,000	(30,000)	510,000	35,000
Drinking Water Revolving						
Loan Fund Debt	10/1/2024	2.5	5,604,981	(240,000)	5,364,981	245,000
BS&A Software	6/30/2008	-	8,140	(4,070)	4,070	4,070
Total Business - type activities			\$ 6,708,121	\$ (319,070)	\$ 6,389,051	\$ 329,070

Note 3 - Detailed Notes on All Funds (Continued)**K. Long-term debt (continued)**

Annual debt service requirements to maturity for the above obligations are as follows:

Year End June 30,	Governmental Activities		Business Type Activities	
	Principal	Interest	Principal	Interest
2008	\$ 8,303	\$ 19,664	\$ 329,070	\$ 169,317
2009	1,911	19,452	340,000	160,272
2010	2,146	19,221	345,000	150,829
2011	386	19,421	365,000	140,881
2012	-	19,039	375,000	130,345
2013-2017	-	95,196	1,960,000	483,148
2018-2022	403,764	62,343	1,775,000	223,364
2023-2025	-	-	899,981	30,251
Total	<u>\$416,510</u>	<u>\$254,336</u>	<u>\$6,389,051</u>	<u>\$1,488,407</u>

Interest is payable on all obligations semi-annually or annually. Principal is paid on an annual basis.

On June 30, 2007, the State of Michigan issued 2007 General Obligation Bonds for \$2 million. The City will be requesting draws on these bonds next fiscal year to fund the inflow and infiltration project.

Act 279, Public Acts of State 1909, as amended, provides that net indebtedness of cities cannot exceed 10% of the real and personal property in the city. The legal debt limit as of June 30, 2007, is 10% of the 2006 Valuation of \$118,487,585 or \$11,844,759. There is \$930,580 of debt incurred by the City which is not specifically exempt from this 10% limitation. The City may, therefore, incur up to \$10,914,179 of new debt subject to this limitation.

Note 4 - Other Information**A. Retirement plans and other post-employment benefits**

The City has a separate single-employer non-contributory defined benefit pension plan for its non-union employees. The City also participates in the Municipal Employees Retirement System of Michigan (M.E.R.S.) which is an agent multi-employer public retirement system (PERS) for the Police, Police Command, Police Dispatch/Secretaries, and DPW Pension Plans. The four M.E.R.S. plans are all contributory defined benefit plans. The City has no fiduciary responsibility for the M.E.R.S. plan. M.E.R.S. issues a publicly available financial report that includes financial statements and required supplementary information for the system as a whole. Benefit provisions and contribution obligations have been established by the City Council. M.E.R.S. issues a publicly available financial report that includes the applicable financial statements and required supplementary information. The report may be obtained by writing to M.E.R.S. 1134 Municipal Way, Lansing, Michigan 48917.

Note 4 - Other Information (Continued)

A. Retirement plans and other post-employment benefits (continued)

Police patrol pension plan:

All full-time police patrol employees, who are a member of a class of employees covered by a collective bargaining agreement between City of Davison and a union representing its police employees, are eligible to participate in the M.E.R.S. police patrol pension plan effective on the plan anniversary date (July 1) immediately following their hire-in date. As of December 31, 2006, the most recent valuation, there were seven active plan members, four retirees and beneficiaries receiving benefits, and zero terminated plan members not yet receiving benefits.

Per union contract all participants must contribute four point three percent (4.30%) of their base rate of pay to M.E.R.S. The balance in each participant's voluntary contribution account shall be fully vested at all times and shall not be subject to forfeiture for any reason.

The plan provides retirement, death and disability benefits to plan members and their beneficiaries.

The plan provides for vesting of benefits after 10 years of service. Participants may elect normal retirement at age 50 with 25 years of service.

Police command pension plan:

All full-time police department command officers are eligible to participate in the M.E.R.S. police command pension plan effective on the plan anniversary date (July 1) immediately following their hire-in date. As December 31, 2006, the most recent valuation, there were two active plan members, zero retirees and beneficiaries receiving benefits, and zero terminated plan members not yet receiving benefits.

Participants must contribute three percent (3%) of their base rate of pay to M.E.R.S. The balance in each participant's voluntary contribution account shall be fully vested at all times and shall not be subject to forfeiture for any reason.

The plan provides retirement, death, and disability benefits to plan members and their beneficiaries.

The plan provides for vesting of benefits after 10 years of service. Participants may elect normal retirement at age 50 with 25 years of service.

Police dispatchers/secretaries pension plan:

All full-time police department dispatchers/secretaries are eligible to participate in the M.E.R.S. police dispatchers/secretaries pension plan effective on the plan anniversary date (July 1) immediately following their hire-in date. As of December 31, 2006, the most recent valuation, there were two active plan member, one retiree and beneficiaries receiving benefits, and zero terminated plan members not yet receiving benefits.

Note 4 - Other Information (Continued)

A. Retirement plans and other post-employment benefits (continued)

Police dispatchers/secretaries pension plan (continued):

Per union contract participants must contribute three percent (3%) of their base rate of pay to M.E.R.S. The balance in each participant's voluntary contribution account shall be fully vested at all times and shall not be subject to forfeiture for any reason.

The plan provides retirement, death, and disability benefits to plan members and their beneficiaries.

The plan provides for vesting of benefits after 6 years of service. Participants may elect normal retirement at age 50 with 25 years of service.

Public works pension plan:

All full-time public works employees are eligible to participate in the M.E.R.S DPW plan effective on the plan anniversary date (July 1) immediately following their hire-in date. As of December 31, 2006, the most recent valuation, there were eight active plan members, two retirees and beneficiaries receiving benefits, and zero terminated plan members not yet receiving benefits.

The plan does not require nor does it permit employee contributions.

The plan provides retirement, death and disability benefits to plan members and their beneficiaries.

The plan provides for vesting of benefits after 10 years of service. Participants may elect normal retirement at age 55 or with 30 years of service.

Non-union pension plan:

All full-time non-union employees are eligible to participate in the plan effective on the plan anniversary date (July 1) immediately following their hire-in date. As of July 1, 2007, the most recent valuation, there were nine active plan members, zero retirees and beneficiaries receiving benefits and one terminated plan member not yet receiving benefits.

The plan does not require nor does it permit employee contributions.

The plan provides retirement, death and disability benefits to plan members and their beneficiaries.

Note 4 - Other Information (Continued)

A. Retirement plans and other post-employment benefits (continued)

Non-union pension plan (continued):

The plan provides for vesting of benefits after 5 years of service. Participants may elect normal retirement at age 60 or after 5 years of service, whichever is later. The plan also provides for early retirement at age 55 with 15 years of service.

Annual required contribution (recommended)	\$ 161,046
Interest on the prior year's net Pension obligation	<u>(7,328)</u>
Annual pension cost	153,718
Amount contributed - Payments of current premiums	<u>(129,000)</u>
Increase in net pension obligation	24,718
Pension obligation - Beginning of year	<u>66,363</u>
Pension obligation - End of year	<u>\$ 91,081</u>

Funding method and assumptions:

The terms of the plans require that the City shall make contributions of at least as great as the amount certified by the plan's actuary as the amount necessary to keep the plan in full force. The employer contributions ranged from 13.94% to 40.12% of covered payroll for the M.E.R.S. plans.

	<u>DPW</u>	<u>Non-Union</u>	<u>Police Control</u>	<u>Police Command</u>	<u>Police Dispatch/ Secretaries</u>
Actuarial valuation date	12/31/06	7/1/07	12/31/06	12/31/06	12/31/06
Actuarial cost method	Entry age	Entry age	Entry age	Entry age	Entry age
Amortization method	Level %	Level \$	Level %	Level %	Level %
Remaining amortization period (weighted)	29 years	22 years	29 years	29 years	29 years
Asset valuation method	Market	Market	Market	Market	Market
Actuarial assumptions					
Investment rate of return	8.0%	6.5%	8.0%	8.0%	8.0%
Projected salary increase	4.5	5.0	4.5	4.5	4.5

Note 4 - Other Information (Continued)

A. Retirement plans and other post-employment benefits (continued)

Annual pension costs

Three year trend information regarding the annual pension costs (APC), percentage of APC contributed, and net pension obligation (NPO) are summarized by plan as follows:

	Plan Year End	Actuarial Valuation Date	Annual Pension Cost (APC)	% of APC Contributed	Net Pension Obligation (Overpayment) NPO
<u>DPW</u>					
	6/30/07	12/31/06	\$ 66,477	100.00%	\$ -
	6/30/06	12/31/05	55,074	100.00	-
<u>Non-Union</u>					
	6/30/07	7/1/06	161,046	80.00	91,801
	6/30/06	7/1/05	180,421	99.00	66,363
	6/30/05	7/1/04	180,171	58.00	72,849
<u>Police</u>					
	6/30/07	12/31/06	80,510	100.00	-
	6/30/06	12/31/05	57,496	100.00	-
	6/30/05	12/31/04	63,029	100.00	-
<u>Police Command</u>					
	6/30/07	12/31/06	23,295	100.00	-
	6/30/06	12/31/05	22,229	100.00	-
	6/30/05	12/31/04	20,892	100.00	-
<u>Police Dispatchers/Secretaries Pension Plan</u>					
	6/30/07	12/31/06	22,646	100.00	-
	6/30/06	12/31/05	13,043	100.00	-
	6/30/05	12/31/04	9,526	100.00	-

Post retirement benefits

The City provides post retirement benefits (health, dental, and optical) to all City retirees. (Effective July 1, 1992, a surviving spouse may continue in the retiree segment if he or she is eligible to assume pension benefits.) During the current year, 12 retirees received benefits. The total cost for these benefits for 2007 was \$176,628. The City pays for 100% of these costs as incurred and provides no funding for them as they are earned. There is no provision for employee contributions.

Note 4 - Other Information (Continued)

B. Deferred compensation plan

The City offers its employees a Deferred Compensation Plan created in accordance with IRC Section 457. The plan, available to substantially all City employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseen emergency.

The law allows trusts to be created for the plan assets, thereby, insulating the assets from the City's general creditors. The City's plan administrator created the trust and placed the assets of the plan within the trust. As a result, the plans assets are not shown on the financial statements to reflect that the City has no fiduciary or administrative responsibility for this plan.

C. Building department revenues and expenditures

The State Construction Code Act, Michigan Public Act 245 of 1999, and rules promulgated by the Department of Treasury regarding that Act, require that a local unit's fees collected from construction code permits be accounted for in a method which shows that all of these fees were used for expenditures related to the operation of the enforcing agency. The rules indicated that if the revenues exceeded the expenditures, the fees collected must be kept in a separate fund with all the revenues and expenditures accounted for in that fund. These rules allowed for monitoring these funds in a separate activity center within the General Fund if the expenditures would normally exceed the revenues. The City chose the latter because historically, the expenditures have exceeded revenues. The activity related to construction code activity for the year ended June 30, 2007 is as follows:

Shortfall at July 1, 2006	\$(419,779)
Current year – building permits revenue	11,572
Less: Expenditures	<u>(40,253)</u>
Excess expenditures over revenue	<u>(28,681)</u>
Cumulative shortfall at June 30, 2007	<u><u>\$(448,460)</u></u>

D. Risk management

Risk Management - primary government:

The City is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for coverage of all claims. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 4 - Other Information (Continued)

E. Joint ventures

1. In April 1979, the City of Davison entered into a joint venture with the City of Davison to create a Senior Citizens Authority. Richfield Township entered into the joint venture on July 1, 1996 and notified the Authority during fiscal 2007 of its intent to withdraw from the Authority. The purpose of the Authority is to provide facilities for recreation and activities for senior citizens residing in the City and Townships. The Authority is governed by a seven member board appointed by the governing bodies of the City, Township, and Richfield Township. The seven member board is made up of two members from each municipality and the seventh member will be appointed alternately by the member municipalities. The agreement provides that the three municipalities will provide 1/3 of the net expenses. The board of the Authority is required to submit an annual operating budget to the governing body of each municipality for approval.

During the year ended June 30, 2007 the City's contribution to the Senior Citizens Authority was \$49,040.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Audited financial statements are available for public inspection at Authority headquarters.

The following is a summary of selected financial information of the Senior Citizens Authority:

	Year Ended June 30, 2007
Total assets	\$1,454,122
Total liabilities	139,854
Net asset invested in capital assets	1,288,511
Restricted net assets	5,239
Unrestricted net assets	20,518
Total joint venture net assets	1,314,268
Net assets to be used for specific purposes	5,239
Total revenue	277,061
Total expenses	249,465

The City of Davison's interest in the Authority's unrestricted net assets as of June 30, 2007 was \$6,839. The majority of the Senior Citizens Authority's assets were purchased with federal funds so any income from the sale of these assets would revert to the federal agency.

2. In January 1972, the City of Davison entered into a joint venture with Davison Township and Richfield Township to create the Davison Richfield Area Fire Authority. The purpose of the Authority is to provide uniform and orderly control of fire protection, fire department practices and organizations, and financing within the territorial limits of the three municipalities. The Authority is governed by a seven member board appointed by the governing bodies of the City and Townships. The agreement calls for each municipality to pay for each fire run to a point within its jurisdictional boundary.

Note 4 - Other Information (Continued)

E. Joint ventures (continued)

2. (continued)

During the year ended June 30, 2007, the City was billed \$104,493 by the Authority. At year end, the City owed \$23,279 to the Authority for fire run services.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Audited financial statements are available for public inspection at Authority headquarters.

The following is a summary of selected financial information of the Fire Authority:

	Year Ended June 30, 2007
Total assets	\$3,105,504
Total liabilities	42,610
Total joint venture net assets	3,062,894
Net assets restricted for capital purchases	2,433,050
Total revenue	677,047
Total expenses	503,893
Operating subsidy from City	104,493

F. Commitments

Trash collection:

The City has entered into a non-cancelable three year contract for trash collection beginning July 1, 2005. The rates in the contract increase by year. Future special assessments paid by residents will cover the costs of the contractual commitment.

G. Upcoming reporting change

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009. Management is currently assessing the impact of this new accounting standard on the City's financial statement for future reporting periods.

Required Supplementary Information

**Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2007**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 1,501,925	\$ 1,436,190	\$ 1,425,463	\$ (10,727)
Licenses and permits	27,100	27,100	13,573	(13,527)
Intergovernmental revenue:				
State and local	722,589	722,589	650,732	(71,857)
Charges for services	105,100	105,100	99,510	(5,590)
Fines and forfeits	30,000	34,621	20,313	(14,308)
Interest income	68,000	65,602	74,349	8,747
Miscellaneous revenues	179,154	188,809	206,682	17,873
Total revenue	2,633,868	2,580,011	2,490,622	(89,389)
Expenditures				
Current:				
Legislative	27,200	27,200	22,945	4,255
General government:				
Executive expenses	149,640	149,640	149,843	(203)
Clerk	69,610	69,610	49,663	19,947
Treasurer	112,968	112,968	100,884	12,084
Election	6,700	6,700	8,492	(1,792)
Planning commission	34,950	34,950	32,874	2,076
Board of appeals	2,780	2,780	1,700	1,080
Administration expenses	434,926	434,926	371,821	63,105
Hall and grounds	81,700	81,700	80,771	929
Less reimbursement from:				
Local streets	(21,326)	(21,326)	(18,178)	(3,148)
Major streets	(21,326)	(21,326)	(18,178)	(3,148)
Water	(199,473)	(199,473)	(182,107)	(17,366)
Sewer	(199,473)	(199,473)	(182,107)	(17,366)
Equipment	(15,896)	(15,896)	(13,972)	(1,924)
Public safety:				
Police protection	1,333,016	1,313,016	1,311,924	1,092
Fire protection	152,600	152,600	104,496	48,104
Building and code enforcement	47,000	47,000	40,253	6,747
Public works:				
Public works	252,538	252,538	238,683	13,855
Street lighting	60,000	60,000	56,638	3,362
Public improvements	73,600	93,600	70,887	22,713
Sanitation	51,540	51,540	23,991	27,549
Off street parking	8,200	8,200	3,489	4,711
Recreation and culture:				
Senior citizens	51,275	51,275	52,873	(1,598)
Parks and recreation	137,640	141,640	143,957	(2,317)
Library	47,925	47,925	35,094	12,831
Community development	61,377	41,543	36,498	5,045
Debt service:				
Principal payments	7,857	7,857	7,857	-
Total expenditures	2,747,548	2,731,714	2,531,091	200,623
Excess of Revenue Over (Under) Expenditures	(113,680)	(151,703)	(40,469)	111,234
Other Financing Uses				
Transfers out	(10,000)	(10,000)	(10,000)	-
Net Change in Fund Balance	(123,680)	(161,703)	(50,469)	111,234
Fund Balance - Beginning of year	1,536,731	1,536,731	1,536,731	-
Fund Balance - End of year	\$ 1,413,051	\$ 1,375,028	\$ 1,486,262	\$ 111,234

City of Davison

Budgetary Comparison Schedule Major Street Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Intergovernmental revenue:				
State	\$ 258,876	\$ 258,876	\$ 256,475	\$ (2,401)
Interest income	10,100	10,100	26,195	16,095
Total revenue	268,976	268,976	282,670	13,694
Expenditures				
Current:				
Highways and streets	325,000	325,000	197,170	127,830
Total expenditures	325,000	325,000	197,170	127,830
Excess of Revenue Over (Under) Expenditures	(56,024)	(56,024)	85,500	141,524
Other Financing Sources (Uses)				
Transfers in	5,000	5,000	5,000	-
Transfers out	(58,680)	(58,680)	(58,680)	-
Total other financing sources (uses)	(53,680)	(53,680)	(53,680)	-
Net Change in Fund Balance	(109,704)	(109,704)	31,820	141,524
Fund balance - Beginning of year	527,053	527,053	527,053	-
Fund balance - End of year	\$ 417,349	\$ 417,349	\$ 558,873	\$ 141,524

City of Davison

Budgetary Comparison Schedule Local Street Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance Amended Budget
Revenue				
Intergovernmental revenue:				
State	\$ 90,060	\$ 90,060	\$ 84,627	\$ (5,433)
Special assessments	-	-	941	941
Interest income	-	-	8,789	8,789
Total revenue	90,060	90,060	94,357	4,297
Expenditures				
Current:				
Highways and streets	166,900	166,900	163,453	3,447
Total expenditures	166,900	166,900	163,453	3,447
Excess of Revenue Over (Under) Expenditures	(76,840)	(76,840)	(69,096)	7,744
Other Financing Sources				
Transfers in	76,840	76,840	63,680	(13,160)
Total other financing sources (uses)	76,840	76,840	63,680	(13,160)
Net Change in Fund Balances	-	-	(5,416)	(5,416)
Fund Balance - Beginning of year	225,121	225,121	225,121	-
Fund Balance - End of year	\$ 225,121	\$ 225,121	\$ 219,705	\$ (5,416)

City of Davison, Michigan

Required Supplementary Information Analysis of Funding Progress

The schedule of employer contributions is as follows:

	<u>Plan Year End</u>	<u>Actuarial Valuation Date</u>	<u>Annual Pension Cost (APC)</u>	<u>% of APC Contributed</u>
<u>Non-Union</u>				
	6/30/07	7/1/06	\$161,046	80.00
	6/30/06	7/1/05	180,421	99.00
	6/30/05	7/1/04	180,171	58.00
	6/30/04	7/1/03	161,282	93.00
	6/30/03	7/1/02	146,201	269.19
	6/30/04	7/1/01	107,456	223.35

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of July 1, 2007, the latest actuarial valuation as follows:

	<u>Non-Union</u>
Actuarial valuation date	7/1/07
Actuarial cost method	Entry age
Amortization method	Level \$
Remaining amortization period (weighted)	22 years
Asset valuation method	Market
Actuarial assumptions:	
Investment rate of return	6.5%
Projected salary increase	5.0

<u>Plan Year End</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability Entry Age (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as % of Covered Payroll (b-a)/c)</u>
<u>Non-Union Pension Plan:</u>							
6/30/07	7/1/06	\$ 472,389	\$1,053,983	\$581,594	44.82%	\$329,138	176.70%
6/30/06	7/1/05	350,754	945,195	594,441	37.11	381,841	155.68
6/30/05	7/1/04	247,097	827,175	580,078	29.87	373,317	155.38
6/30/04	7/1/03	108,021	620,864	512,843	17.40	335,152	153.02
6/30/03	7/1/02	393,545	855,859	462,314	45.98	331,364	139.52
6/30/02	7/1/01	1,009,142	1,083,213	74,071	93.16	271,146	27.32

City of Davison, Michigan

Required Supplementary Information Analysis of Funding Progress (Continued)

Plan Year End	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability Entry Age (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll (b-a)/c)
<u>Police Patrol Pension Plan:</u>							
6/30/07	12/31/06	\$1,721,055	\$2,700,021	\$ 978,966	63.74%	\$421,075	232.49%
6/30/06	12/31/05	1,632,723	2,535,419	902,696	64.39	362,266	249.18
6/30/05	12/31/04	1,480,282	2,068,065	587,783	71.57	471,580	124.64
<u>Police Command Pension Plan:</u>							
6/30/07	12/31/06	\$ 385,405	\$ 545,766	\$ 160,361	70.61%	\$143,451	111.78%
6/30/06	12/31/05	329,843	506,149	176,306	65.16	144,636	121.89
6/30/05	12/31/04	283,826	448,305	164,479	63.31	140,049	117.44
<u>Police Dispatchers/Secretaries Pension Plan:</u>							
6/30/07	12/31/06	\$ 146,290	\$ 329,114	\$ 182,824	44.44%	\$ 59,201	308.81%
6/30/06	12/31/05	132,038	317,355	185,317	41.60	37,748	490.93
6/30/05	12/31/04	128,384	295,091	166,707	43.50	32,932	506.21
<u>Public Works Pension Plan:</u>							
6/30/07	12/31/06	\$1,374,211	\$2,570,856	\$1,196,645	53.45%	\$369,159	324.15%
6/30/06	12/31/05	1,234,144	2,142,492	908,348	57.60	394,541	230.23

Combining Fund Statements and Fund Descriptions

City of Davison, Michigan

Nonmajor Governmental Funds Summary Descriptions June 30, 2007

Special Revenue Funds

The Community Development Fund – was established to account for the receipt and disbursements of grants received from Community Development Block Grants.

The Capital Improvement Fund – used to accumulate resources for the payment of sanitation expenditures.

Debt Service Funds

The 1998 General Obligation Bond Fund – was established to accumulate resources for the payment of storm improvement bonds.

The 1996 Street Improvement Bond Fund – was established to accumulate resources for the payment of street improvement bonds.

The Building Authority Bond Fund – was established to accumulate resources for the payment of building authority bonds.

Capital Projects Funds

The 1987 Storm Drain Improvement Fund – was established to account for storm drain improvements.

The 1996 Street Improvement Fund – was established to account for street improvements.

Agency Funds

The Tax Collection Fund – is used to account for cash receipts and disbursements for property taxes levied.

City of Davison

	Special Revenue		Debt Service	
	Community Development	Capital Improvements	1998 General Obligation Bonds	1996 Street Improvement
Assets				
Cash and cash equivalents	\$ 570	\$ 12,749	\$ 58,564	\$ 5,036
Liabilities and Fund Balances				
Liabilities				
Due to other funds	\$ 570	\$ -	\$ -	\$ -
Due to other governments	-	-	2,132	-
Total liabilities	570	-	2,132	-
Fund Balances				
Unreserved, undesignated	-	12,749	56,432	5,036
Total fund balances	-	12,749	56,432	5,036
Total liabilities and and fund balances	\$ 570	\$ 12,749	\$ 58,564	\$ 5,036

City of Davison

	Special Revenue	Debt Service
	Capital	1998 General
	Improvements	Obligation
		Bonds
Revenue		
Property taxes	\$ -	\$ 11
Charges for services	195,684	-
Interest income	7,188	3,113
Total revenue	202,872	3,124
Expenditures		
Current:		
Sanitation	199,420	-
Capital outlay	-	-
Debt service:		
Principal payments	-	95,000
Interest and fiscal charges	-	2,319
Total expenditures	199,420	97,319
Net Change in Fund Balances	3,452	(94,195)
Fund Balances - Beginning of year	9,297	150,627
Fund Balances - End of year	\$ 12,749	\$ 56,432

**Combining Statement of Revenue, Expenditures, and Changes in
Fund Net Assets - Nonmajor Governmental Funds
Year Ended June 30, 2007**

Debt Service		Capital Projects		Total
1996 Street Improvement	Building Authority Bonds	1987 Storm Drain Improvements	1996 Street Improvements	
\$ 11	\$ -	\$ -	\$ -	\$ 22
-	-	-	-	195,684
121	9	1,267	409	12,107
132	9	1,267	409	207,813
-	-	-	-	199,420
-	-	2,862	-	2,862
-	-	-	-	95,000
-	-	-	-	2,319
-	-	2,862	-	299,601
132	9	(1,595)	409	(91,788)
4,904	170	28,375	10,629	204,002
\$ 5,036	\$ 179	\$ 26,780	\$ 11,038	\$ 112,214

City of Davison

Budgetary Comparison Schedule Capital Improvement Fund Year Ended June 30, 2007

	Capital Improvement			
	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Charges for services	\$ 192,460	\$ 192,460	\$ 195,684	\$ 3,224
Interest income	3,000	3,000	7,188	4,188
Total revenue	195,460	195,460	202,872	7,412
Expenditures				
Sanitation	195,460	195,460	199,420	(3,960)
Total expenditures	195,460	195,460	199,420	(3,960)
Net Change in Fund Balances	-	-	3,452	3,452
Fund Balances - Beginning of year	9,297	9,297	9,297	-
Fund Balances - End of year	\$ 9,297	\$ 9,297	\$ 12,749	\$ 3,452

City of Davison

Budgetary Comparison Schedule Davison Downtown Development Authority Year Ended June 30, 2007

	Budget		Actual	Variance with Amended Budget
	Original	Amended		
Revenue				
Tax increment revenue	\$ 63,000	\$ 115,769	\$ 115,769	\$ -
Interest	750	4,500	5,500	1,000
Grant revenue	-	-	25,195	25,195
Total revenue	63,750	120,269	146,464	26,195
Expenditures				
Current:				
Development administration:				
Administrative staff	12,496	49,096	32,331	16,765
Dues and memberships	500	605	602	3
Insurance	5,000	5,150	5,138	12
Audit fees	2,000	2,500	2,500	-
Administrative expense and travel	850	900	563	337
Maintenance	23,000	22,000	16,561	5,439
Lease payments	900	900	900	-
Decoration placement labor	2,000	660	660	-
Utilities	5,000	5,000	4,008	992
Miscellaneous expense	-	-	24	(24)
Total development administration	51,746	86,811	63,287	23,524
Community administration and promotion:				
Promotion and marketing	1,000	500	348	152
Farmer's Market expense - net	7,460	6,085	6,428	(343)
Pumpkin Festival expense - net	7,500	1,806	2,098	(292)
Events director	1,000	-	173	(173)
Total community administration and promotion	16,960	8,391	9,047	(656)
Public improvement:				
Beautification	-	200	198	2
Engineering	-	6,000	769	5,231
Paving	2,000	2,000	383	1,617
Streetscaping	361	361	-	361
Christmas	4,200	1,803	1,733	70
Façade program	45,000	85,000	50,752	34,248
Total public improvement	51,561	95,364	53,835	41,529
Total expenditures	120,267	190,566	126,169	64,397
Net change in fund balance	(56,517)	(70,297)	20,295	90,592
Fund Balance - Beginning of year	28,941	28,941	28,941	-
Fund Balance - End of year	\$ (27,576)	\$ (41,356)	\$ 49,236	\$ 90,592

City of Davison

Budgetary Comparison Schedule Davison Local Development Finance Authority Year Ended June 30, 2007

	Budget		Actual	Variance with
	Original	Amended		Amended Budget
Revenue				
Tax increment revenue	\$ 40,000	\$ 40,000	\$ 48,585	\$ 8,585
Interest	500	500	835	335
Total revenue	40,500	40,500	49,420	8,920
Expenditures				
Current:				
Development administration:				
Community development director	21,750	21,750	21,554	196
Development activities:				
Professional services	26,500	26,500	4,671	21,829
Entrance and Signs	50,000	50,000	-	50,000
Street lighting/streetscape	10,000	10,000	-	10,000
Properties expenses	57,300	57,300	23,953	33,347
Interest expense	-	-	144	(144)
Total development activities	143,800	143,800	28,768	115,032
Total expenditures	165,550	165,550	50,322	115,228
Net change in fund balance	(125,050)	(125,050)	(902)	124,148
Fund Balance - Beginning of year	120,813	120,813	120,813	-
Fund Balance - End of year	\$ (4,237)	\$ (4,237)	\$ 119,911	\$ 124,148



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October 29, 2007

To Honorable Mayor and City Council
City of Davison

Dear Honorable Mayor and City Council:

In planning and performing our audit of the financial statements of City of Davison ("City") as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

Due to/from Balances

At year end the interfund receivable and payable balances did not agree. Procedures should be implemented to periodically verify that the interfund receivable and payable balances are in agreement. To simplify the reconciliation process we suggest that the City periodically pay down the interfund balances.

Certificate of Deposit

During the audit we noted that certificate of deposit activity was not recorded timely. When certificates of deposits were rolled over or cashed in the interest income that occurred as a part of the transaction was not consistently recorded on the general ledger. We recommend that any time an event that changes the principal amount of a certificate of deposit it is recorded at the time of the event and not deferred until a later date.

Equipment Activity

During the year vehicles were purchased by the general fund in lieu of transferring cash to the internal service fund for their annual equipment rental payment. No entry was made in the internal service fund to record the capital assets and recognize the rental revenue. We suggest in the future when this type of transaction takes place that an offsetting entry be recorded in the internal service fund to ensure that the correct rental income is recognized and that the asset is added to the internal services fund's depreciation schedule.

Approximately \$67,000 of equipment purchased during the year in the motor pool fund was expensed. This amount should have been recorded as a capital asset and added to the depreciation schedule.

Deferred Revenue

During the audit adjustments were necessary to adjust receivables and deferred revenue for Elmwood and the Secretary of State lease to the outstanding balance per the subsidiary ledger or amortization schedule. The receivable and related deferred revenue should be adjusted annually for payments received during the year.

Net Pension Obligation

The net pension obligation at year end for the non-union pension plan has not been included in the financial statements. The adjustment was included in the summary of unrecorded possible adjustments.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses.

Net Assets

The net assets in several funds were not in agreement with the prior year's audited financial statements. Annually after the completion of the audit and the recording of any related adjustments, procedures should be implemented to verify that the net assets agree to the audited financial statements.

Long-term Debt

During the year payments on long term debt in the proprietary funds were recorded entirely against the liability accounts instead of being properly recorded to interest expense and the liability account. When payments are recorded on proprietary debt the payment should be recorded to interest expense and only the principal portion of the payment should be taken against the liability. The split of the debt payment can be found on each debt issue's amortization schedule.

Revenue Recognition

A grant was received during the year for the inflow and infiltration project. Engineering and other costs had been incurred by year end on this project, however the related grant receivable was not recorded. Also related costs for this project had been incurred by year end but had not been recorded as an accounts payable.. Accrual accounting would require that the earned grant be recorded as a receivable and any cost incurred by year end be recorded as a payable.

This communication is intended solely for the information and use of the Michigan Department of Treasury, Mayor and City Council, and City management, and, others within the City and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in cursive script, appearing to read "Peggy Haw Jury".

Peggy Haw Jury, CPA, CFE